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INDUSTRIAL PRODUCTION FOR THE FIRST NINE MONTHS OF 1980

Product	Jan.-Sept.80	% of 1st 9 mos. of 80 over 79
Electricity (bil.kw.)	948	105
Petroleum (Including gas condensate mil. tons)	450	103
Natural gas (bil.cu.m.)	321	107
Coal(mil.tons)	536	99.3
Steel(mil.tons)	112	100.2
Fertilizer (mil.tons)	78.8	111
Computer Technology(bil.rubles)	3.3	115
Watches (mils.)	49.5	103
Radios (mils.)	6.4	102
Television sets (mils.)	5.6	103
Paper(mil.tons)	4.0	100.9
Cement(mil.tons)	94.1	103
Meat (mil. tons)	6.6	95
Motor Vehicles cars(1000s)	992	101
trucks	590	102
Tractors(1000s)	414	101

TROUBLE PERSISTS IN THE TRACTOR INDUSTRY

According to the production figures for the first nine months of 1980, Soviet tractor production in September 1980 was only 61% of what it had been in September 1979. In other words, in September 1980, the Soviets produced 45,000 tractors, whereas in the comparable month of 1979, they produced 74,000. This seems to affirm the difficulties we reported in the October Newsletter. As we reported then, this drop in production may be attributed to either strikes or to a diversion of resources to support the fight in Afghanistan, in particular for the conversion of tractor production to tank production.

In contrast, automobile production seems to have increased in September 1980 over September 1979 by a slim margin of 1%. In September 1980, the Soviets produced 111,000 automobiles compared to 106,000 for the preceding year. Overall automobile production for the nine months is up 1%.

We made the statement in our last Newsletter that the drop in tractor and automobile production was an unprecedented event and had probably never occurred since World War II. Barney Schwarlberg of Brandeis University brought it to our attention that indeed automobile production had fallen before. The last time this had happened was in 1958-59, and similarly in 1950-51. Of course it must be remembered that 1950-51 was during the Korean War period, and therefore a parallel may be drawn to explain why production is falling now during a similar war-time situation.

As for other important industries that we have been watching, meat production in September 1980 was 7% below what it had been in September 1979.

The good news for the Soviets is that petroleum production continues to increase. For September 1980, production was up over 4% of what it had been in September 1979. For the nine months as a whole, production was up 3.4% in the petroleum industry over the comparable nine months of 1979. Steel production was down 4% in September 1980 from what it was in September 1979, but overall production for the nine months as a whole remain about the same.

PRELIMINARY REPORTS ON GRAIN INDICATE SERIOUS PROBLEMS FOR THE SOVIETS

Although the final calculations have not yet been made, preliminary estimates indicate that the Soviets have had a very bad grain crop this year. Indeed, by the time the final field is harvested, the crop may not exceed that of 1979, which was particularly bad. The harvest in 1979 of all grain crops was 179 million tons, and the figure for 1980 is expected to be about 1980 million tons. This is a significant shortfall from the expected 235 or so million tons that the Soviets had hoped to harvest, and the 205 million tons that the U.S. Department of Agriculture was predicting until recently.

Undoubtedly, the shortfall is due to the very wet weather experienced in the western part of the Soviet Union. The reports of serious flooding in the Ukraine suggested to some observers outside the Department of Agriculture that the Soviets were in very serious trouble.

This shortfall in Soviet production raises some important policy questions for the United States. First, do we sell the Soviets the additional grain they will desperately need? If they found it necessary to enter into contracts with the U.S. for the 1979-80 harvest year of 25 million tons (at least until their invasion of Afghanistan provoked us to embargo all but 8 million tons of such sales), their needs this year will be even higher. Because they could not obtain all the grain they needed this past year, they were forced to dip into their reserves. This year, the likelihood is that they will have few if any such reserves to fall back on. In addition, the harvest situation in countries like Canada, Australia, and Argentina is not as good as it was previously. It is unlikely that the Soviets will be able to turn elsewhere, or at least find countries who will be willing to sell the Soviets as much grain as they need. Canada and Australia have indicated that they would not sell the Soviets more than they had prior to 1979.

This puts the United States in a very important bargaining position. In addition, we have just signed an agreement with the Chinese which will require them to purchase 6-8 million tons of grain a year for four years. This is almost like the previous agreement we had with the Soviets, which required the Russians to buy 6-8 million tons for five years. This new Chinese agreement will go a long way towards providing American farmers with the orders they need - in the same way that the Soviet agreement did before - and will reduce the internal political pressure within the U.S. to sell to the Soviets.

The question is, therefore, what do we do with the Soviets? Their five year agreement to purchase grain from the United States expires this year. Do we renew that, or do we say that we will not sign such an agreement nor sell them the grain they need this year until they withdraw from Afghanistan?

It has often been argued that such embargoes do not work. In the past, that has been true at least partially. But this may be a different year. It is most rare that the Soviets find themselves with two bad harvests in a row. Usually it occurs once every four years. More than that, there seems to be no one else they can turn to. On top of everything else, the embargo this year seems to have had an impact on Soviet meat production. The Soviet Union is located too far north to allow for the production of much corn, and they are therefore very dependent on the importation of corn from the United States or Argentina. Because they have not been able to buy as much corn as they need to feed all their livestock, they were forced to hold a distress slaughtering in January and February of this year. Meat production temporarily went up, but now they are paying the consequences of that action. Meat production is currently about 15% below what it was last year at this time. Not surprisingly, therefore, meat, milk, and dairy products are in even shorter supply than usual.

How will the present harvest affect the Soviet's position in Eastern Europe? Traditionally the USSR has shipped some of its surplus grain to several East European countries to help them supplement local grain production. Its inability to provide this usual help this past year undoubtedly exacerbated the food situation in Poland and in turn was probably one of the factors precipitating the strikes there. For that matter, in May there were

reports that food shortages caused work stoppages in the USSR. It may be more than coincidental that Soviet auto production fell 6% in August, the first time this has happened in over 20 years. Potentially, the Soviets have a serious crisis on their hands. In the interim, without some foreign help available to them, the situation will undoubtedly be even more serious next year at this time, and may extend to not only shortages of meat, but conceivably of bread as well.

This provides us with a golden opportunity. It is true that if our position is presented in too crass or confrontational terms, the Soviets will pull back and boast that if they could withstand a thousand day seige of Leningrad, they can do the same thing now. Nonetheless, the Soviets will have some serious political internal difficulties if they aren't able to supply their population with adequate supplies of food. That should certainly give them some "food" for thought about their foreign stance, and it may very well be that in order to obtain the necessary food supplies, they may decide to reexamine their position and their heretofore rigid attitude about Afghanistan.

CURRENCY FIGURES

Rubles Purchased Per 100:	Oct.79	Sept.80	Oct.80
Aust. shilling	5.07	5.08	5.06
U.K. pound	142.20	154.62	154.57
W. Ger. mark	36.70	36.00	35.79
U.S. dollar	64.35	64.90	64.40
Fr. franc	15.55	15.47	15.41
Jap. yen	.290	.295	.301
Ital. lira	.0797	.0758	.0753
Swiss franc	40.86	38.98	39.13

Currency exchange rates for the Japanese yen and Italian lira show an increase in value for September-October 1980. All other currencies reported here reflect a decrease during this period.

BALANCE OF TRADE - 1ST HALF 1979 AND 1980
(Million Rubles)

	Exports From USSR		Imports To USSR	
	1979	1980	1979	1980
Austria	189	280	164	160
Belgium	182	401	149	176
GB	480	320	399	516
Greece	83	187	40	44
Denmark	107	122	50	39
Italy	518	893	419	429
Netherlands	291	567	128	178
Norway	32	27	23	39
Germany	774	1076	1196	1603
France	485	930	685	937
Switzerland	92	173	151	205
Sweden	197	142	113	132
Japan	354	471	874	907
Subtotal	3784	5589	4391	5365
Sub-Balance of Trade			-607	+224
USA	119	87	963	764
Canada	17	15	113	321
Australia	3	3	144	441
New Zealand	1	1	66	115
Total:	3924	5695	5677	7006
Balance of Trade			-1753	-1311

SOVIETS IMPROVE THEIR BALANCE OF TRADE

The balance of trade figures for the first half of 1980 have been published. The explanation for the improvement is, as before, the increasing price of petroleum, particularly on the spot market. It is fascinating to look at the Netherlands, the main source of the spot market for petroleum. In the first half of 1978, Soviet exports to the Netherlands totalled 122 million rubles. In 1979 that more than doubled

to 291, and virtually doubled again in the first half of 1980 so that the Soviets earned 567 million rubles, which is close to 3/4 billion dollars.

It is also interesting to see the significant jump in exports to West Germany. Exports rose by 300 million rubles. This consists not only of higher priced petroleum, but increased shipments of gas and a higher unit per cubic meter of gas as well.

As a result of their sales in Europe and to Japan, the Soviets were able to show a positive balance of trade. Unfortunately for them, their purchases of grain remained high, and indeed what they were forced to save in their purchases from the United States were more than compensated for by increased purchases from Canada, Australia, and New Zealand. Consequently overall they still had a deficit of 1.3 billion rubles for the first half of 1980, but that was a considerable reduction from the same period of the preceding year. Overall, therefore, the Soviet Union continues to benefit from the raising price of energy.

ARDEN HOUSE CONFERENCE

As we mentioned in the October Newsletter, the Russian Institute at Columbia and the Russian Research Center at Harvard are about to resume the holding of the Arden House conferences. This fifth conference will be held at the former Harriman Estate in Harriman, New York, beginning Friday evening, March 13, and running until Sunday noon, March 15.

The overall theme of the conference this year is "A Review of U.S.-Soviet Relations Including Afghanistan, Poland, and a New Five-Year Plan." The panel members and speakers have been invited, and we hope to have the formal speakers list available shortly. Among the panel themes are the following: Some Thoughts on U.S.-Soviet Relations: Past & Future; The Soviet Union, Its East European Allies & the International Scene; The Soviet Stance in the Middle East, Asia and Africa; The 11th Five-Year Plan: Consequences for Soviet Economic Development and Soviet Foreign Trade; The Cost/Benefit of the Afghanistan Trade Embargo; U.S.-Soviet Relations After the Election; Joint Ventures in East Europe; and Prospects for Trade in the 11th Five-Year Plan.

The Russian Research Center takes no official stand on any economic or political matter. The views and analyses expressed in this Newsletter are those of the authors directly associated with the article in question; and unless otherwise stated, with those of the editor, Marshall I. Goldman.